

## MEMORANDUM

**TO:** Board of Trustees

**FROM:** Ray Tulloch  
Audit Committee Chair

**SUBJECT:** Review, discuss, and possibly take action on the written annual Audit Committee Report to the District's Board of Trustees (Exhibit One) in conjunction with the presentation of the annual audit in accordance with Policy 15.1.0 (subparagraph 2.4.6).

**DATE:** February 9, 2022

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### **I. Background**

Under Board Policy 15.1.0, section 2.4, the Audit Committee is required to:

- 2.4 Facilitate the external audit process.
  - 2.4.1 Review and approve formal reports or letters to be submitted to the external auditor.
  - 2.4.2 Provide an independent forum for (external and/or internal resources) auditors to report findings or difficulties encountered during the audit.
  - 2.4.3 Review the auditors' report of findings and recommendations with management and the auditor.
  - 2.4.4 Review the CAFR in its entirety, including unaudited sections and letters.
  - 2.4.5 Follow -up on any corrective action identified.
  - 2.4.6 Submit a written annual Audit Committee Report to the District's Board of Trustees in conjunction with the presentation of the annual audit.
  - 2.4.7 Assess the performance of the independent auditors.

At the Audit Committee meetings of November 17 and December 8 respectively the Audit Committee completed actions 2.4.3 and 2.4.4

At the Audit Committee meeting of December 16 the Committee reviewed and agreed changes to the draft report prepared by Audit Committee chair Tulloch. This is presented here in final form.

### **II Action**

This report is presented by the Audit Committee for the Board to review, discuss, and possibly take action on the written annual Audit Committee Report to the District's Board of Trustees

(Exhibit One) in conjunction with the presentation of the annual audit in accordance with Policy 15.1.0 (subparagraph 2.4.6).

The Audit Committee has previously provided the General Manager and Finance Director with a draft copy of this report to provide them with an opportunity to respond to the issues identified and described herein by the Audit Committee. No response or clarification has been received by the Committee.

The Committee also notes that, since the preparation of this Report, the Board has implemented changes in the Capitalization policy. The Committee expresses deep concern that, as a result of these changes, there are likely to be material issues and lack of consistency in future reporting of Capital assets which will make it difficult to have confidence in, or ability to compare, Capital Assets in subsequent ACFRs.

## **Exhibit One**

### **January 26, 2022, Annual Audit Committee Report to the IVGID Board of Trustees**

#### **1 Background**

The IVGID Audit Committee ("AC") is required under Board Policy 15.1.0, subparagraph 2.4.6 to "Submit a written annual Audit Committee Report to the District's Board of Trustees in conjunction with the presentation of the annual audit. This report is provided to comply with the Policy and provide the Board with our questions, concerns, comments and recommendations.

At the public meeting held on December 8th 2021, the Audit Committee received and reviewed the final IVGID Annual Comprehensive Financial Report (ACFR) for the fiscal year ending June 30, 2020 and other related materials. The Management Representation Letter was not included in the package presented to the Audit Committee but was subsequently emailed to AC members when it was requested. As a result the AC was not able to review the management representation letter during the public meeting. The Audit Committee had previously reviewed an initial draft of the ACFR at the November 17 Audit Committee meeting.

The ACFR and accompanying documents were presented by Director of Finance Paul Navazio and Controller Martin Williams. Davis Farr Audit Engagement Partner Jennifer Farr was in attendance to answer questions and provide an overview with specific comments on the contents of the documents and the opinion issued by Davis Farr as required under their audit engagement letter with IVGID.

In light of the AC receiving the final 2020 ACFR and related documents for the first time on December 8, 2021, it was not possible for the Audit Committee to both remain compliant with Open Meeting Laws and to prepare, review and finalize the required report to the Board of Trustees (BoT) prior to the scheduled meeting of the BoT on December 14, 2021 where the ACFR was scheduled to be reviewed and possibly accepted by the BoT. The Audit Committee subsequently held a meeting on December 16 to review and agree changes to the draft report prepared by Audit Committee chair Tulloch. This is presented here in final form.

#### **2 Comments by and Concerns identified by the Audit Committee**

- 1) The AC notes that IVGID management issued and signed the Management Representation letter to Davis Farr prior to review by the AC, contrary to Board Policy 15.1, 2.4.1. The Management Representation Letter was also not included in the documents provided to the Audit Committee for the December 8 meeting. As such the Audit Committee has still to perform a final review of the Management Representation Letter.

- 2) The Audit Committee notes that the previously ongoing disagreements and concerns over the \$3.179m for assessments, studies and preliminary designs for the Effluent Pipeline that the AC considered to be incorrectly capitalized in FY 19-20 have now been addressed through a Prior Year Adjustment and the \$3.179m, less accumulated depreciation, has now been expensed in the utility fund. (Further discussed below). It should be noted that expenditures of \$181,822 have been charged to the Effluent Pipeline capital project accounts for fiscal year 2020 and 2021 which are substantially the same type of costs charged off in 2021 and which the Audit Committee considers should also have been expensed.
  
- 3) The AC notes that the final version of the Transmittal letter to the Nevada Department of Taxation now includes disclosure of, and reference to the two Material Weaknesses and one significant Deficiency identified by the Audit. This is in concurrence with our request made at the November 17 meeting.
  
- 4) The Committee received clarification and confirmation from Davis Farr that the audit engagement was not structured as a comprehensive forensic audit. The Audit opinion provided <sup>1</sup>

*“In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Incline Village General Improvement District, as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows and the statement of revenues for the year then ended in accordance with accounting principles generally accepted in the United States of America.”*

was based upon the information and statements provided by management and audit tests and review. This complies with statutory requirements.
  
- 5) The Audit identified two material weaknesses (MW) and one Significant Deficiency along with other deficiencies which required to be addressed. The Audit Committee notes that this is the second consecutive year where Material Weaknesses have been identified and has concerns at this trend. Management have proposed actions to address these Material Weaknesses which the Audit Committee will review and monitor progress for correction.
  
- 6) Several of the concerns and deficiencies identified by the Auditor appear to be a direct result of lack of, and failure to comply with, internal controls. The Committee is deeply concerned about the lack of an opinion from the Auditor regarding internal controls. The Audit Committee also notes that it has previously been urging staff to complete the updates of Internal Controls.
  
- 7) The Audit Committee notes that there have now been Prior Year Adjustments in 4 out of the 5 previous years which could indicate an ongoing issue with timely and

<sup>1</sup> Independent Auditors Report @P2

accurate financial reporting. This makes it difficult to be able to have confidence in reported financial performance in the funds and business activities. With that in mind the Statistical Section of the ACFR which is not audited and has not been discussed or reviewed by the Audit Committee may have distortions as a result of these prior period adjustments .

- 8) The Audit Committee has serious concerns that several of the revisions to the proposed Capital Asset write-offs reviewed and identified by the Auditor were subsequently rejected and reversed by management in apparent violation of Board Policy 9.1.0 and Board Practice 2.9.0 (Discussed further below in 3.2 and details also in Appendix D) Management provided no documented explanation for how the policy was unclear and open to interpretation. The AC views the actions taken related to depreciation as a violation of Board Policy and Practice.
- 9) The Auditor highlighted concerns (concerns previously expressed by the Audit Committee) that expense items included in Capital Projects were only subject to review and possible transfer to be expensed when a project was closed rather than being expensed at the time of expenditure. There appears to be no clear procedure for ensuring that this review actually takes place and as a result there may be overstatement of capital assets and understatement of expenses. Members of the Committee have also raised concerns that the inclusion of expense items in capital projects funds is not in compliance with NRS, (NRS 354.4995) and GAAP/GASB (GASB #54 paragraph #33. The Audit Committee has requested capital items for expense not be included in the Capital Improvement Budget, but instead in operational expenses.
- 10) The recording and allocation of investment income to the separate funds does not appear to accurately reflect the relative balances within the funds and appears to be excessively skewed towards the General Fund which has the lowest fund balance. This was previously brought up and discussed with the Finance Director but no action appears to have been taken or supporting justification provided to validate the current allocation. Therefore, the AC views the financial report to incorrectly reflect interest income and therefore fund balance within each of the major funds.
- 11) It appears that in FY 20-21 several design studies and assessments have again been incorrectly capitalized rather than expensed as previously advised by Moss Adams. This is inconsistent with the actions taken in FY 19-20 where capitalized assessment studies were reversed to expense. (see further detail in Appendix D) Therefore, the AC views the financial reports to be inaccurate related to operational expenses and depreciation.
- 12) Facility fees (RFF/BFF) are again reported as general revenue rather than program revenues in the Statement of Activities . It is the view of the Audit Committee that this is NOT in compliance with GAAP and should be corrected. The final Moss

Adams report provides clarification on why the Facility Fees should be reported as program revenues.

### **3 Additional Discussion on Principal Concerns of the Audit Committee.**

#### **3.1 Expensing Previously Capitalized costs of the Effluent Pipeline (Comment 2)**

Concerns about expensing Effluent Pipeline Phase II costs which were previously reported as Capital Assets and /or Construction in Progress in the 18-19 and 19-20 ACFRs have continued to be a subject of discussion by the Audit Committee during FY 20-21. The recent Moss Adams reports provided applicable capital expenditure and best practice guidance based on Governmental Accounting Standards Board (GASB) Concepts Statement No 4. The accepted practice includes recognition of the different stages of a project which include preliminary studies,, construction and post-construction. The preliminary stage activities that include conceptual formulation and evaluation of alternatives, determination of future needs, feasibility studies and development of financing alternatives should be expensed as they are not directly connected with creating service capacity.

This highlighted that approximately \$3,179,000 in expenses of \$5,146,100 in costs incurred through June 30, 2019 for the Effluent Pipeline Phase II Project had been recorded in the Utility Fund as a capital asset and/or construction in progress. AC Member Clifford F. Dobler has previously provided a comprehensive and extensive overview of the entire costs incurred through fiscal year 2019 on the Effluent Pipeline Phase II Project. It is apparent that a major portion of these costs were necessary to satisfy conditions of an Administrative Order on Consent with the Nevada Department of Environmental Protection issued in April, 2014 and not resolved until May, 2019. This was discussed at length during the FY 19-20 ACFR review. The then Auditor and Management disagreed with the Committee view and left the at issue amount of \$3,179,000 as a Capital asset in the FY 19-20 financial statements.

For the FY20-21 ACFR, the initial proposal from Davis Farr and Management was that they still considered this to be a correct capitalization . Following extensive discussion of the initial draft ACFR during the November 17 2021 Audit Committee meeting, plus recognition that initial planning for replacement of (and financing options for) the effluent pipeline are now underway, it was agreed by Management that it would now be appropriate to close this outstanding issue by charging off the identified \$3.179m in Capital Assets to expense. Due to the magnitude of this write-off it was necessary to account for this as a Prior Period Adjustment and revise the financial statements to reflect this.

The Audit Committee recognizes the extensive effort expended by Mr. Dobler over previous years in accurately identifying the amounts to be expensed. The Audit Committee also recognizes the final agreement and initiative by General Manager Winquest and Finance Director Navazio to implement this change. Accordingly the Audit Committee thanks AC

member Dobler, GM Winqest and DoF Navazio for their efforts to bring this long running issue to closure.

### **3.2 Review of Capitalized Assets**

During initial discussions on audit procedures between Davis Farr and the Audit Committee, the Audit Committee had highlighted their concerns around prior capitalization of items that appeared, under relevant GAAP, GASB and GFOA standards, as well as Board Capital Asset Policy 9.1.0 and Board Capitalization Practice 2.9.0, to be expense items rather than Capital Assets.

Accordingly, as part of their audit, Davis Farr performed a high level review of capital assets over the prior 15 year period to identify any apparent incorrect capitalization. Based on this the initial draft report provided to the Audit Committee by management on November 17, 2021, identified \$3,592,863.85 (original cost) of items that appeared to have been incorrectly capitalized. Net of accumulated depreciation of \$2,726,360.15 this was reflected as a write down of Capital Assets of \$866,503.70 in the draft report. A summary of these proposed Fixed Asset Audit Adjustments is attached as Appendix A. The Audit Committee, at that time, agreed in principle with this as a reasonable starting point in correcting previous suspect categorization of assets and accepted the proposed adjustments.

However, as part of the agreement to revise the financial statements to include the Prior Period Adjustment discussed under item 3.1 above, IVGID Management also performed an additional review of the Fixed Asset Adjustments identified by Davis Farr. The intent of this review was to more accurately assess on an individual item basis whether the adjustment was supported by the underlying data. This was done by reviewing additional detail about the asset rather than just looking at the header level detail as had been done by Davis Farr in their assessment. In principle the Audit Committee concurs with the validity of this approach.

When the final version of the ACFR was provided to the Audit Committee on December 8, 2021, it reflected a revised net write-off of capital assets (excluding the Effluent Export Pipeline) of only \$167,751, resulting from a total of \$1.2 million at original cost, net of \$1.03 million in accumulated depreciation. This was a significant delta from the November 17 proposals which were for a \$866,503.70 net write-off. On review of the detail of the changes made in this adjustment the Audit Committee identified a number of apparent variances from Policy. This included for example items such as:

- (a) paving repairs and maintenance, which appeared on the surface to be expense items  
and
- (b) A number of discrete assets with an original cost below the \$5,000 individual item minimum threshold specified in Board Policy 9.1.0, paras 2.0 and 3.0 (attached as Appendix B), and Board Practice 2.9.0, paras 1.1 and 1.2, (attached as Appendix

C). In aggregate these items amounted to an original cost of \$329,558 and a current book value of \$177,414.

With regard to items in (a) above, the Audit Committee does not have the level of detail necessary to validate or refute Management’s categorization and accepts, subject to reservations, Management’s categorization of these assets. A further review by an Audit Committee Member provides more detail on the expensed components which were reversed by Management (Appendix F).

However with regard to items in category (b) above, the considered and unanimous view of the Audit committee is that this categorization appears to be a clear deviation from, and violation of, Board Policy 9.1.0 and Board Practice 2.9.0. Specifically as follows:

***Board Policy 9.1.0***

- 2.0 Capitalization thresholds are best applied to individual items rather than to groups of similar items (e.g., desks and tables), unless the effect of doing so would be to eliminate a significant portion of total capital assets.
- 3.0 ***In no case*** will the District establish a capitalization threshold of less than \$5,000 for any individual item. (emphasis added)

*and*

**Board Practice 2.9.0**

1.1 The capitalization threshold ***per item shall be:***

ASSET CLASS	MINIMUM COST
Equipment .....	\$ 5,000.00
Structures and Land Improvements .....	\$10,000.00

1.2 In addition to cost, all of the following criteria ***shall*** also be used:

- 1.2.1 The normal useful life of the item is three or more years.
- 1.2.2 The item has an acquisition cost (including freight and installation) of at least the amounts listed above in each asset class.

In discussions, Management advised the Audit Committee that, in terms of complying with the relevant Board Policies and Practices, it is their view that they have the ability to apply their judgement and to be flexible in how they these Policies are to be applied, and also that they are free to aggregate similar individual assets to meet the minimum threshold. They also considered that in terms of materiality this concern is irrelevant as the net delta in write-offs if these items were to be expensed is limited to \$152,144. However no supporting documentation, justification or references have been provided to the Committee to support this claim.



Upon perusal of the relevant board Policies and Practices, as well as consultation with legal counsel and Davis Farr, the Audit Committee has been unable to identify any provisions in the Policy that provide for flexibility, judgement or materiality to justify this approach. To the contrary the Policy and Practice appears to be unequivocal, for example:

*The capitalization threshold per item shall be:  
In no case will the District establish a capitalization threshold of less than \$5,000 for any individual item.*

It is the considered and unanimous view of the Committee that compliance with these relevant Board Policies and Practices must be viewed as a binary choice i.e. either compliant or non-compliant. We can find no applicable middle ground or materiality threshold apparent in the text. Therefore the Audit Committee must advise the Board of Trustees that there appears to be a clear violation of Board Policies and Practices in this instance. While in terms of overall materiality of the financial statements the Committee agrees that the total impact is limited, the inference in this instance is that Management regard compliance with Board Policy and Practice as optional.

***The Committee cannot in good faith concur with or support this approach.***

For example, the language in the contract for the General Manager, (the only employee directly engaged by the Board) the language is very specific on this<sup>2</sup>:

*1.1 IVGID hereby employs General Manager full-time to uphold and abide the laws of the State of Nevada, District Ordinances, written Policies, Practices, and Resolutions enacted by IVGID Board of Trustees ("Board of Trustees"),.....*

So it can reasonably be expected that this requirement to comply with Board Policies, Practices and Resolutions also extends to all other employees of the District.

The Committee raises this apparent violation of Board Policy and Practice for consideration of action and reinforcement by the Board of Trustees as it is the Committee's view that there is a clear and overriding fiduciary requirement for Management to lead by example in compliance with agreed Board Policy. Absent such compliance it brings into question whether Board Policies in general should simply be considered as optional rather than mandatory.

### **3.3 Inconsistency**

Management does not appear to have been consistent in the application of charging off capital expenditures which were expenses according to best practices. In fiscal year ending June 30, 2020, a total of \$803,514 of prior year capital expenditures for paving, painting, pre development expenses and abandoned projects were charged off as prior period adjustments. On May 31, 2021, Mr. Dobler provided a memorandum to the Audit

<sup>2</sup> Extract from of IVGID General Manager Employment Agreement

Committee which outlined additional capital costs which should have been expensed applying the same standards of charge offs made on June 30, 2020. Excluding the Effluent Pipeline, a total of \$1,171,606 does not appear to have been addressed and either remains in the capital assets or construction in progress accounts of the District. (Appendix E).

Further supporting detail is provided in Appendix D

#### **4 Additional Recommendations**

1. The Committee recognizes that in their first year audit Davis Farr has identified several issues that would support more in depth review in future audits to ensure IVGID financial statements provide an accurate representation of the District's finances and assets. It is the Committee's strong and unanimous recommendation that in the 21-22 audit, the Board should expand the scope of the audit, in particular to include more detailed examination of fixed assets and review of compliance with internal controls.
2. The audit has identified a number of apparent issues of failure of internal controls and processes. At the October 26 Audit Committee meeting, the Committee discussed with management their concerns with the apparent lack of progress on developing internal controls and strongly encouraged management to consider bringing on additional resources to ensure that this work was prioritized to ensure effective internal controls could be implemented expeditiously. The Audit Committee strongly recommends that the Board should direct this to be a critical priority for Management action and to be completed by 30 April 2022 at the latest.
3. In the current ongoing review of Board Policies and Practices the Committee recommend that the Board should provide explicit guidance to Management and staff of the absolute requirement to comply with Board Policies and Practices. If compliance is to be regarded as optional it must be questioned whether there is any value in the District applying resources and expenditures to revise these Policies. If staff identify legitimate issues with complying with Policies it is the responsibility of staff to bring these issues to the Board for resolution.
4. With regard to the actions proposed by Management in response to Material Weaknesses and Deficiencies identified by the Audit, it is the intention of the Audit Committee to add review of progress on these actions as a standing item on the AC agenda. The Committee recommends the Board should also highlight this as a priority action for Management with the objective of achieving a FY 21/22 audit that identifies no Material Weaknesses or Significant Deficiencies.
5. It is recommended that the current practice of placing maintenance expenses in Capital Improvement projects be discontinued forthwith and for all such expenditures to be properly budgeted within operating expenses. The process for review of such expenditures for allocation in accordance with Board Policies and Practices should be reviewed, updated as necessary and documented in order to provide an effective audit trail.

#### **Conclusions**

The AC believes this report satisfies our required responsibilities under Audit Committee

Board Policy 15.1.0 and trust that the Board of Trustees will consider our questions, concerns, comments and recommendations.

The AC wishes to thank Davis Farr and IVGID Management for the effort applied to the Audit and preparation of the ACFR. The outcomes clearly demonstrate the value of regular rotation of Auditors to bring fresh perspective on IVGID financial reporting.

**Respectfully,**

**IVGID Audit Committee**

Ray Tulloch, At large Audit Committee Member and Audit Committee Chair

Mathew Dent, IVGID Board Trustee and Vice Chair

Sara Schmitz, IVGID Board Trustee and Secretary

Clifford F. Dobler, At large Audit Committee Member

# Appendix A

## SUMMARY OF FIXED ASSET AUDIT ADJUSTMENTS

Fund	Description	Value of Assets Reviewed		Audit Adjustments			% of Value at Cost	% of Value at Book Value
		Total Value (at Cost)	Total Book Value	Original Cost	Accumulated Depreciation	Book Value (6/30/21)		
100	General Fund	5,251,618.00	3,046,089.00	39,556.33	\$ 28,690.52	\$ 10,865.81	0.75%	0.36%
200	Utility Fund	141,958,054.00	65,339,896.00	1,417,460.79	1,028,380.94	389,079.85	1.00%	0.60%
320	Golf Fund	20,204,054.00	9,870,681.00	1,343,643.67	1,111,875.58	231,768.09	6.65%	2.35%
330	Facilities	4,512,052.00	2,501,277.00	52,225.77	41,330.63	10,895.14	1.16%	0.44%
340	Ski	36,912,505.00	19,459,640.00	382,929.90	272,776.68	110,153.22	1.04%	0.57%
350	Rec Center	8,736,381.00	2,361,328.00	165,604.42	111,424.94	54,179.48	1.90%	2.29%
360	Rec Admin	1,618,495.00	1,106,932.00	23,618.42	20,338.17	3,280.25	1.46%	0.30%
370	Parks	17,152,467.00	12,815,403.00	33,410.27	27,609.99	5,800.28	0.19%	0.05%
380	Tennis	2,681,501.00	1,249,895.00	8,033.00	4,394.25	3,638.75	0.30%	0.29%
390	Beach	7,440,534.00	3,985,297.00	113,108.49	66,265.66	46,842.83	1.52%	1.18%
410	Fleet	169,903.00	45,163.00	9,477.92	9,477.92	0.00	5.58%	0.00%
430	Buildings	70,694.00	6,623.00	3,794.87	3,794.87	0.00	5.37%	0.00%
<b>Totals</b>		<b>\$ 246,708,258.00</b>	<b>\$ 121,788,224.00</b>	<b>\$ 3,592,863.85</b>	<b>\$ 2,726,360.15</b>	<b>\$ 866,503.70</b>	<b>1.46%</b>	<b>0.71%</b>

## Appendix B



### Accounting, Auditing and Financial Reporting Capitalization of Fixed Assets Practice 2.9.0

**RELEVANT POLICIES: 8.1.0 Establishing the Estimated Useful Lives of Capital Assets and 9.1.0 Establishing Appropriate Capitalization Threshold for Capital Assets**

#### 1.0 ACCOUNTING CONTROL

The capitalization threshold for all asset classes shall be identified during the budget process each fiscal year by the Finance and Accounting staff and approved by the Board of Trustees as part of the adoption of the annual Debt Management Policy, including the Five Year Capital Improvement Plan and its statement on Minimum level of expenditure.

1.1 The capitalization threshold per item shall be:

<u>ASSET CLASS</u>	<u>MINIMUM COST</u>
Equipment .....	\$ 5,000.00
Structures and Land Improvements .....	\$10,000.00

1.2 In addition to cost, all of the following criteria shall also be used:

1.2.1 The normal useful life of the item is three or more years.

1.2.2 The item has an acquisition cost (including freight and installation) of at least the amounts listed above in each asset class.

1.2.3 The item will not be substantially reduced in value by immediate use.

1.2.4 In case of repair or refurbishment that will be capitalized, the outlay will substantially prolong the life on an existing fixed asset or increase its productivity significantly, rather than merely returning the asset to a functioning unit or making repairs of a routine nature.

Effective July 1, 2016



**Accounting, Auditing and Financial Reporting  
Capitalization of Fixed Assets  
Practice 2.9.0**

1.2.5 The capitalization threshold is applied to individual items rather than to groups of similar items (e.g. desks and tables).

1.2.6 The utilization of componentization of assets under the project, to provide a more appropriate management of an assets care, condition and associate maintenance or replacement, takes precedent over the stated thresholds under section 1.1.

**2.0 PHYSICAL CONTROL**

All fixed assets acquired either as operating or capital expenditures will be identified as IVGID property and recorded. Such items represent a value to the operations that have an ongoing usefulness to justify safeguarding them from loss or abuse. The items should be expected to be in service at least two years and can be readily assigned to a function or activity as responsible for its care and condition.

Effective July 1, 2016

## Appendix C



### **Accounting, Auditing and Financial Reporting Establishing Appropriate Capitalization Threshold for Capital Assets Policy 9.1.0**

**POLICY.** The District will consider the following guidelines in establishing capitalization thresholds:

- 1.0** Potentially capitalizable items should only be capitalized if they have an estimated useful life of greater than two years following the date of acquisition or placed into service.
- 2.0** Capitalization thresholds are best applied to individual items rather than to groups of similar items (e.g., desks and tables), unless the effect of doing so would be to eliminate a significant portion of total capital assets.
- 3.0** In no case will the District establish a capitalization threshold of less than \$5,000 for any individual item.
- 4.0** In establishing capitalization thresholds, when the District is a recipient of federal awards, then federal requirements that prevent the use of capitalization thresholds in excess of certain specified maximum amounts for purposes of federal reimbursement will prevail.
- 5.0** Capitalization of buildings and infrastructure should consider the use of componentization as a way to reflect the varying life cycle considerations of mechanical, structural elements, and wear items that may require different cycles of maintenance and replacement from the main asset being capitalized. The significance of such componentization takes precedent over the \$5,000 threshold, and thus smaller amounts may be listed to facilitate proper asset management.

Effective July 1, 2016



## Appendix D

### Background

2020 CAFR - Prior Period Adjustments for Capital Assets and Construction in Progress ONLY

- Community Services and Beaches - \$803,514 consisting of:
  - Carpeting and Painting - 8 "projects" - \$78,582
  - Paving - 38 "projects" - \$435,672
  - Pre development - High School Ball field - \$77,216
  - Pre development - Community Services Master Plan - \$212,044

2021 Concepts and Assessments (Pre development) and abandonments which were **NOT** considered for charge off to expense. Amounts should have been expensed based on Moss Adams report 1/14/2021 and accepted by Board of Trustees on 2/10/2021 - Cliff Dobler memo dated 5-31-2021. More detail on Appendix E

- Burnt Cedar Pool - \$219,802 (includes \$119,498 of repairs completed in 2019 and abandoned in June 2021)
- Incline Beach Bldg - \$216,131
- Mountain Golf Course Club House - \$328,954 (includes \$150,751 for repair costs to open prior to major rehab)
- Tennis Center - \$68,621
- Incline Baseball Field - \$120,268
- Diamond Peak Master Plan - \$217,830
- **Total - \$1,171,606**

2021 CAFR - Initial Charge off (per Davis Farr) of \$866,504 in second draft and amounts removed in third draft (throw back)

	<u>Initial</u>	<u>Throw Back</u>	
• General Fund -	\$28,691	\$ 8,800	
• Utility Fund -	389,080	316,885	Wetland repairs \$1743K
• Community Services -	369,194	314,106	Parking and Cart Path repairs \$211K
• Beaches -	66,266	37,640	100% Parking and Boat Ramp repairs
• Internal Services -	13,273	ZERO	
total	\$866,504	\$677,431	
	DIFFERENCE	\$189,073	
	MEMO	\$167,751	WHY?

2021 CAFR - Additional Charge Off for Pipeline - \$3,179,000 DID NOT INCLUDE 2020 AND 2021 EXPENSES OF \$182,023. Costs included the Granite assessment report ,the Jacobs report on the Pond,. and an unknown amount of Staff time.

Other Charge offs not considered - ACQUIRED UNDER NEW BOARD POLICY AND PRACTICE

- Staff Uniforms at DP 2016-2017 \$115,739
- Rental Skis at DP 2016-2017 \$466,104
- Undepreciated amount - To be determined

## Appendix E

### Incline Village General Improvement District Capitalized concept and assessments for potential charge offs

#### Burnt Cedar Pool

Repairs to circulation system -in 2019	119,498
Conceptual Design - TSK 2020	32,200
Schematic Design - TSK 2020	68,104
	219,802

#### Incline Beach Building

concept design and cost estimates - Bull Stockwell - 2016	216,131
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<b>Total Beaches</b>	<b>\$ 435,933</b>
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#### Mountain Golf Course

Global Golf and BRG Architecture - New Clubhouse 2012/2014	132,203
Temporary Repair Costs for 2019 season before new rehab	150,751
Schematic Design Cart Paths - Lumos and Staff Time - 2020	46,000

#### Tennis Center

Lloyd Design - evaluation 2015/2016	42,120
Concept Design - BJG Architecture 2018	26,501

#### Incline Ball Fields

LPA - Concept Design - 2017	41,000
Schematic Design - Lloyd Consulting Group - 2017	73,930
Other unknow costs for concepts put in unbudgeted project	5,338

#### Diamond Peak

Concept Master Plan SEC Group 2014	156,030
Permit Submittals to Forest Service SEC Group 2015	29,000
Biological surveys - Hauge Brueck Associates 2019	32,800

Total Community Services	<b>\$ 735,673</b>
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GRAND TOTAL

\$ 1,171,606

## Appendix F

### Audit Committee Report to the Board of Trustees.

#### Analysis of capital items originally considered a charge off and reversed by IVGID management

Supplement to item 3.2

At the request of IVID management, Davis Farr provided a high level review of cost items classified as capital assets which should have been expensed based on Board Policies and Practices, the Moss Adams recommendations and GFOA sections on capitalization. The report was provided to the Audit Committee on November 17, 2021. The review indicated that \$866,503.70, consisting of \$3,592,863.85 in costs and \$2,726,350.15 in accumulated depreciation, would be charged off and reported as a prior period adjustment. Subsequently, undocumented discussions ensued between Davis Farr and IVGID management wherein it was determined that 169 items with a book value of \$677,540.52 consisting of \$2,396,674 in costs and accumulated depreciation of \$1,179,244 would not be expensed and remain as capital assets. As a result only \$189,072 (\$866,504 less \$677,540) was charged off as expenses and reported as a prior period adjustment. The Audit Committee is unsure why the December 8th memo from Paul Navazio listed \$167,751 as the charged off costs. (page 5 of AC Packet)

Based on a Committee Member extended review of the CAPITAL ASSETS reversed the following are conclusions based on historical facts and recommendations.

There were 169 items listed

- 33 items had no book value and were not necessary to be included
- 26 items were not depreciated and had total costs of \$50,015. It is unknown what these costs were, however they averaged only \$1,924. We have reservations about the whether these costs should remain as capital assets even though Board Policies and Practices did not establish capitalization thresholds for costs which would not be depreciated.
- 64 items with a combined book value of \$127,553 should not have been reversed since the original purchase costs for each item did not meet the cost threshold for capitalization as defined in Board Policies and Practices.
- There were two items in the Utility Fund labeled "Maintenance Facility Garage" each costing \$42,350 and purchased on the same date of 12/31/2017. The remaining book value of these two items was \$34,130. This may be a duplicate.
- There were 10 items in the Utility Fund for repairs of roadways and levees at the 600 acre Wetland site which captures all waste water from the Waste Water Treatment Plant in Incline Village. Total book value was \$174,333. Applying the criteria of the Moss Adams Report and the GFOA section - "Governmental Accounting ,Auditing and Financial Reporting" (GAAFR 23-10) these items should not have been capitalized as continuous repairs are being conducted annually at the Wetlands site. As stated in the Moss Adams Report:

***"Governments often expend resources on existing capital assets. Most often, these expenditures simply preserve the asset's utility are expensed as routine repairs and maintenance. Any outlay that does no more than return a capital asset to its original condition, regardless of the amount expended, should be classified as maintenance and repairs. Since maintenance and repairs provide no additional value , their costs should be recognized as expense when incurred."***

- There were seven items listed as parking lot and golf course cart path paving repairs. The net book value was \$248,000. Applying Moss Adams and GFOA recommendations (above) these costs should have been expensed. Ironically, in fiscal year 2019/2020, IVGID staff reported a prior period adjustment to expense 38 paving projects with a net book value of \$435, 672 which had previously been capitalized.

Also during 2020/2021, 13 parking lot and golf cart paths paving repairs costing \$253,736 were expensed. As such, IVGID management is not being consistent in capitalization of expenses regarding paving maintenance and repairs.

***Accounting principles - The consistency principle states that, once you adopt an accounting principle or method, continue to follow it consistently in future accounting periods. Only change in accounting principle or method if the new version in some way improves reporting financial results - May 15, 2017***

- There were 4 remaining items with a combined net book value of \$42,348 which consisted of a sewer line repair (\$18,582), a roof repair at the Diamond Peak Snowflake lodge (\$14,266), a snowmaking master plan (\$8,845) and a small amount of software (\$655) all of which appear to be expenses.

### **Conclusion**

The audit committee generally concurred with the original analysis by Davis Farr wherein most of the \$866,504 of net book value of assets should have been expensed and recorded as a prior period adjustment.

- We find that IVGID management did not follow board Policies and Practices, nor the recommendations of Moss Adams, nor the guidance by the GOFA but rather used their own "judgment" as to costs which should be capitalized as opposed to expensed.
- It is unclear to the AC the extent of the Davis Farr review. Davis Farr provided no opinion on their review.

### **Recommendation:**

- A deeper review of the Capital Assets should be conducted after an agreement is reached by the Board of Trustees on a definitive description of what costs should be capitalized or expensed.

## MEMORANDUM

**TO:** Board of Trustees  
Audit Committee

**THROUGH:** Indra Winqest  
District General Manager

**FROM:** Paul Navazio  
Director of Finance

Martin Williams  
Controller

**SUBJECT:** Comments Related to Annual Audit Committee Report (dated January 26, 2022)

**DATE:** February 9, 2021

---

The purpose of this memorandum is to provide the Board of Trustees and Audit Committee with staff comments regarding selected issues of concerns and recommendations included in the Annual Report of the Audit Committee, appearing on the Board agenda for the meeting of February 9<sup>th</sup>.

Comments by and Concerns Identified by the Audit Committee:

- 1) *Management Representation Letter*. Management acknowledges that the Management Representation Letter was signed without prior review by the Audit Committee.

As was noted to the Audit Committee the Management Representation Letter is prepared by the independent auditor and audit standards require that the Management Representation Letter be signed prior to issuance of the final audit report by the auditor. Despite the language in Board Policy 15.1, 2.4.1, stating that facilitation of the external audit include "Review and approve formal reports or letters to be submitted to the external auditor", it is unclear as to whether this section applies to the Management Representation Letter in that it is impractical, and more importantly, inappropriate for the Audit Committee to approve the Management Representation Letter.

While Staff concurs with the sentiment that the Audit Committee be kept informed throughout the audit, and be provided a copy of the Management Representation Letter for review, the language in the current Board Policy

has been revised (as of 2/3/22) to clarify the role of the Audit Committee with respect to the Management Representation Letter.

- 4) *Scope of independent audit (of financial statements)*. Management concurs that the scope of the independent audit engagement did not constitute a “comprehensive forensic audit,” nor is this typically the scope of an annual audit of financial statements.

Should the Committee or Board choose to undertake an audit that goes beyond the standard audit procedures for review of financial statements for compliance with GAAP/GAASB and Generally-Accepted Audit Standards, this should be discussed with the external auditor prior to the engagement for the FY2021/22 audit. Additional audit scope would likely require a separate engagement (and cost) from the specific scope of the annual financial statement audit.

- 5) *Material Weaknesses*. Management concurs with the Audit Committee’s concerns related to Material Weakness findings in the auditor’s report and is making every effort to address the issues identified by the external auditor.
- 6) *Internal Controls*. Staff acknowledges the need to prioritize strengthening internal controls and has already made significant progress in this regard. Several of the specific audit findings that related to weaknesses in internal have already been addressed (in fact, some were addressed *prior* to the start of the audit).
- 7) *Prior Year Adjustments*. Management concurs with the concern over recurring Prior Year adjustments, and is working to ensure that these are not a regular occurrence. It should be noted however, that most of the prior year adjustments over the past two years result from requests from the Audit Committee to address concerns raised by the Committee, despite past audits not raising concerns over the course of the audit.
- 8) *Capital Asset Write-off*. The Audit Committee report states that revisions proposed by the Auditor were “rejected and reversed by management in apparent violation of Board Policy.”

This is factually incorrect. As discussed with the Audit Committee, and supported by the Auditor, at issue are items that the Auditor had identified as *potential write-offs*, based on their review of Board Policy and GAAP/GASB guidelines. The reversals of items initially written-off were all reviewed with the Auditor and were only reversed upon concurrence of the Auditor.

Moreover, management believes that the review of capital assets and subsequent write-offs to be consistent with Board Policy 9.1 and Board Practice 9.2. At the same time, given the identified need to clarify aspects of the capitalization policy, these have been largely addressed in the updated capitalization policy approved by the Board in January.

- 9) *Timing and accounting of expensing of CIP Budget items.* Management concurs with the audit comments related to the timing of expensing costs that do not meet capitalization criteria and internal processes have been updated to identify and expense these items when incurred rather than at the close-out of a project.

With respect to the Audit Committees concern that expense items were recorded in the capital project funds, management's position – supported by the independent auditor – is that the recording of these costs within the capital project funds *does not* violate GAAP/GASB, nor does it violate provisions of the NRS. (The Department of Taxation has since rendered its opinion that the 2020/21 Annual Comprehensive Finance Report contains no violation of applicable NRS statutes or regulations).

Note – on a going forward basis, this issue is rendered moot by the transition from Governmental Funds to Enterprise Funds for the District's Community Services and Beach funds.

- 10) *Investment income.* The accounting for investment income has been modified beginning with the 2021/22 (current) fiscal year.
- 11) *Review of items capitalized in the FY2020/21 financial statements.* All FY2020/21 capital and construction-in-process items were reviewed by management and the auditor and concluded that capitalization was appropriate.
- 12) *Recording of Facility Fees in the Statement of Activities.* The Audit Committee report states that, in the Committee's opinion, the reporting of Facility Fees as general revenues is not in compliance with GAAP, and should be corrected. Management, along with current and past auditors, have determined that the Facility Fees represent non-exchange transactions and, as such, are appropriately recorded as general revenues in the District's financial statements. The Audit Committee engaged a specific discussion on this topic with Jennifer Farr, DavisFarr Managing Partner for this audit engagement.

#### Section 4 – Additional Recommendations

- 1) Expanded Scope of FY2021/22 audit – See Comment #4, above.
- 2) Internal Controls – Management concurs with the need to prioritize review and strengthening of internal controls. This ongoing project is currently focused on a) review and update of relevant Board Policies and Practices, b) implementation or recommendations from the Moss Adams Construction Advisory report and Moss Adams Capital Planning, Budgeting and Reporting report, b) review and update of the District’s Purchasing Policy and c) review and update of internal Accounting and Finance Procedures Manual (Management Partners). Target completion date is May/June 2022 (prior to start of new fiscal year).

Note – Internal Control procedures are also being evaluated in conjunction with planned transition to the new Tyler/Munis Financial System. A significant number of Accounting and Finance procedures – including internal control considerations – will be updated (again) after July 1, 2022, as appropriate, to reflect workflows control parameters being implemented in the new financial system.

- 3) *Compliance with Board Policies.* Management believes that current management practices, including those related to accounting, financial reporting and preparation of the District’s financial statements are consistent with Board Policy. Areas where issues or concerns have arisen as a result of interpretation of Board Policy are being (and have been) addressed.
- 4) *Addressing Material Weaknesses referenced in Audit report.* Management is in full concurrence.
- 5) *Maintenance Expenses reflected in Capital Budget.* Management does not concur with this recommendation and this issue warrants Board discussion.

Management concurs, and has implemented, budgeting and accounting practice of reflecting all capital maintenance expenses as operating costs within the District’s budget and financial statements. However, the presentation of these items in the capital budget is not only consistent with current Board Policy 13.1/ Practice 13.2, but also assists in identifying individual projects, with varying levels of funding requirements, all related to the maintenance and replacement of the District’s facilities, infrastructure, and assets.

Management is developing improved presentation and reporting of the different elements contained in the Capital Improvement Plan for ease of understanding.



Memorandum

To: Audit Committee

From: Clifford F. Dobler

2-14-2021

Re: Rebuttal to February 9, 2021 statements made by Paul Navazio, IVGID Director of Finance regarding accounting and reporting operating expenses in Capital Project Funds.

Within the January 26, 2022 Audit Committee Report to the Board of Trustees, members expressed concerns that reporting operating expenses in the capital project funds potentially violated GASB #54 definition of a Capital Project Fund and NRS 354.4995 definition of a Capital Project Fund. Definitions of both are on Exhibits A and B.

In response to the Audit Committee Report, Mr. Paul Navazio claims in his February 9, 2022 memorandum to the Board of Trustees and the Audit Committee, (Exhibit C) that there was no violation of either GASB or NRS based on support by the independent auditor Davis Farr. Mr. Navazio claims that the Department of Taxation (DT) has rendered an "opinion" that the 2020/2021 Annual Comprehensive Finance Report contains no violations of applicable NRS statutes or regulations. This is incorrect. According to the January 13, 2022 letter from Kellie Grahmann, Budget Analyst of the DT (Exhibit D) there were NO violations of statute and/or regulations noted in the audit report from Davis Farr. The report from Davis Farr regarding compliance states that Davis Farr performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements which could have a direct and material effect on the financial statement amounts. The results of the tests disclosed no instances of noncompliance. However providing an opinion on compliance was not an objective of the audit and no opinion was expressed. (Exhibit E). The Audit Committee has not been provided any information on what was tested by Davis Farr.

According to the engagement letter between Davis Farr and IVGID, the responsibility for compliance with GASB and NRS lies not with the auditor but with management of IVGID. As such, Davis Farr has little or no liability for non compliance with GASB and NRS in reporting IVGID financial statements. As such "support" becomes

Under NRS 354.624 (Exhibit F) Each local government shall provide to its auditor:

(a) A statement indicating whether each of the following funds established by the local government is being used expressly for the purposes for which it was created, in the form required by NRS 354.6241:

- (1) An enterprise fund.
- (2) An internal service fund.
- (3) A fiduciary fund.
- (4) A self-insurance fund.

- (5) A fund whose balance is required by law to be:
  - (I) Used only for a specific purpose

The specific purpose of the Capital Project Funds is clearly established by Resolution 1838 (Exhibit G).

Under NRS 354.6241 (Exhibit G), IVGID must provide the auditor a statement that the Capital Project Funds are being administered in accordance with generally accepted accounting procedures.

On October 26, 2021, audit committee members brought forward concerns about possible incorrect accounting for and reporting of operating expenses in the Capital Projects Funds for Community Services and Beaches and corrections could have been made prior to submitting the final financial statements.

Since the Board of Trustees approved the January 14, 2021 Moss Adams report there was adequate time to bring forth, for Board approval, an augmentation of the 2020/2021 budget to reflect a reallocation of Facility Fees from the Capital Project Funds to the Special Revenue Fund to provide funds for the expenses incurred.

According to the final 2020/2021 Annual Comprehensive Finance Report a total of \$705,397 in operating expenses were reported in the Community Services Capital Projects Fund and \$234,767 in operating expenses in the Beach Capital Project Fund. If these operating expenses had been properly classified in the respective Special Revenue Funds, the revenues in excess of expenditures in the Community Services Special Revenue Fund (operating) would have been reduced by 25%,. The excess of expenditures over revenues in the Beach Special Revenue Fund would have been increased from \$211,408 to \$446,175 and increase of 111%.

Any reader of the financial statements could be misled regarding the actual expenses of operating the recreational venues.

GASB #54

resources (investment earnings and transfers from other funds, for example) also may be reported in the fund if those resources are restricted, committed, or assigned to the specified purpose of the fund. Governments should discontinue reporting a special revenue fund, and instead report the fund's remaining resources in the general fund, if the government no longer expects that a substantial portion of the inflows will derive from restricted or committed revenue sources.

32. Governments should disclose in the notes to the financial statements the purpose for each major special revenue fund—identifying which revenues and other resources are reported in each of those funds.

***Capital Projects Funds***

33. Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

***Debt Service Funds***

34. Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds should be used to report resources if legally mandated. Financial resources that are being accumulated for principal and interest maturing in future years also should be reported in debt service funds.

## **Exhibit B**

**NRS 354.4995 “Capital projects fund” defined.** “Capital projects fund” means a fund created to account for resources used for the acquisition or construction of designated capital assets by a governmental unit except those financed by proprietary or trust funds.

(Added to NRS by [1983, 1636](#); A [1989, 402](#); [2001, 1798](#))

Moreover, management believes that the review of capital assets and subsequent write-offs to be consistent with Board Policy 9.1 and Board Practice 9.2. At the same time, given the identified need to clarify aspects of the capitalization policy, these have been largely addressed in the updated capitalization policy approved by the Board in January.

- 9) *Timing and accounting of expensing of CIP Budget items.* Management concurs with the audit comments related to the timing of expensing costs that do not meet capitalization criteria and internal processes have been updated to identify and expense these items when incurred rather than at the close-out of a project.

With respect to the Audit Committees concern that expense items were recorded in the capital project funds, management's position – supported by the independent auditor – is that the recording of these costs within the capital project funds *does not* violate GAAP/GASB, nor does it violate provisions of the NRS. (The Department of Taxation has since rendered its opinion that the 2020/21 Annual Comprehensive Finance Report contains no violation of applicable NRS statutes or regulations).

Note – on a going forward basis, this issue is rendered moot by the transition from Governmental Funds to Enterprise Funds for the District's Community Services and Beach funds.

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- 12) *Recording of Facility Fees in the Statement of Activities.* The Audit Committee report states that, in the Committee's opinion, the reporting of Facility Fees as general revenues is not in compliance with GAAP, and should be corrected. Management, along with current and past auditors, have determined that the Facility Fees represent non-exchange transactions and, as such, are appropriately recorded as general revenues in the District's financial statements. The Audit Committee engaged a specific discussion on this topic with Jennifer Farr, DavisFarr Managing Partner for this audit engagement.

#### *Section 4 – Additional Recommendations*



STATE OF NEVADA  
DEPARTMENT OF TAXATION

Web Site: <http://tax.nv.gov>  
1550 College Parkway, Suite 115  
Carson City, Nevada 89706-7937  
Phone: (775) 684-2000 Fax: (775) 684-2020

RENO OFFICE  
4600 Kietzke Lane  
Building L, Suite 235  
Reno, Nevada 89502  
Phone: (775) 688-1295  
Fax: (775) 688-1303

STEVE SISOLAK  
Governor  
JAMES DEVOLLD  
Chair, Nevada Tax Commission  
MELANIE YOUNG  
Executive Director

LAS VEGAS OFFICE  
Grant Sawyer Office Building, Suite 1300  
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Phone: (702) 486-2300 Fax: (702) 486-2373

HENDERSON OFFICE  
2550 Paseo Verde Parkway, Suite 180  
Henderson, Nevada 89074  
Phone: (702) 486-2300  
Fax: (702) 486-3377

January 13, 2022

Incline Village General Improvement District  
Paul Navazio, Finance Director  
893 Southwood Boulevard  
Incline Village, NV 89451

Re: Annual Audit Report – Fiscal Year 2021

Dear Mr. Navazio:

Pursuant to NRS 354.6245, the Department of Taxation is charged with the review of all annual audits to determine their compliance with statutes and/or regulations. The Department must also identify all violations of statute and/or regulations reported therein.

The Department has completed its review of your audit report and NO violations of statute and/or regulations were noted. The auditor met the statutory provisions required by NRS 354.624 and NRS 354.6241.

If you should have any questions, please do not hesitate to contact me at 775-684-2065 or my e-mail at [kgrahmann@tax.state.nv.us](mailto:kgrahmann@tax.state.nv.us).

Sincerely,

Kellie Grahmann  
Budget Analyst  
Local Government Finance



## Exhibit E

### Davis Farr - Section of Report

#### **Compliance and Other Matters**

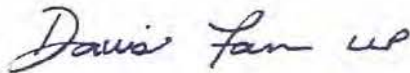
As part of obtaining reasonable assurance about whether Incline Village General Improvement District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### **District's Response to Recommendations**

The District's written response to the significant deficiencies and material weaknesses identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

#### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Irvine, California  
December 3, 2021

## Exhibit F

### **NRS 354.624 Annual audit: Requirements; designation of auditor; scope and disposition; dissemination; prohibited provision in contract with auditor.**

1. Each local government shall provide for an annual audit of all of its financial statements. A local government may provide for more frequent audits as it deems necessary. Except as otherwise provided in subsection 2, each annual audit must be concluded and the report of the audit submitted to the governing body as provided in subsection 6 not later than 5 months after the close of the fiscal year for which the audit is conducted. An extension of this time may be granted by the Department of Taxation to any local government that submits an application for an extension to the Department. If the local government fails to provide for an audit in accordance with the provisions of this section, the Department of Taxation shall cause the audit to be made at the expense of the local government. All audits must be conducted by a certified public accountant or by a partnership or professional corporation that is registered pursuant to [chapter 628](#) of NRS.

2. The annual audit of a school district must:

(a) Be concluded and the report submitted to the board of trustees as provided in subsection 6 not later than 4 months after the close of the fiscal year for which the audit is conducted.

(b) If the school district has more than 150,000 pupils enrolled, include an audit of the expenditure by the school district of public money used:

(1) To design, construct or purchase new buildings for schools or related facilities;

(2) To enlarge, remodel or renovate existing buildings for schools or related facilities; and

(3) To acquire sites for building schools or related facilities, or other real property for purposes related to schools.

3. The governing body may, without requiring competitive bids, designate the auditor or firm annually. The auditor or firm must be designated, and notification of the auditor or firm designated must be sent to the Department of Taxation not later than 3 months before the close of the fiscal year for which the audit is to be made.

4. Each annual audit must cover the business of the local government during the full fiscal year. It must be a financial audit conducted in accordance with generally accepted auditing standards in the United States, including findings on compliance with statutes and regulations and an expression of opinion on the financial statements. The Department of Taxation shall prescribe the form of the financial statements, and the chart of accounts must be as nearly as possible the same as the chart that is used in the preparation and publication of the annual budget. The report of the audit must include:

(a) A schedule of all fees imposed by the local government which were subject to the provisions of [NRS 354.5989](#);

(b) A comparison of the operations of the local government with the approved budget, including a statement from the auditor that indicates whether the governing body has taken action on the audit report for the prior year;

(c) If the local government is subject to the provisions of [NRS 244.186](#), a report showing that the local government is in compliance with the provisions of paragraphs (a) and (b) of subsection 1 of [NRS 244.186](#); and

(d) If the local government is subject to the provisions of [NRS 710.140](#) or [710.145](#), a report showing that the local government is in compliance with the provisions of those sections with regard to the facilities and property it maintains and the services it provides outside its territorial boundaries.

5. Each local government shall provide to its auditor:

(a) **A statement indicating whether each of the following funds established by the local government is being used expressly for the purposes for which it was created, in the form required by [NRS 354.6241](#):**

(1) An enterprise fund.

(2) An internal service fund.

(3) A fiduciary fund.

(4) A self-insurance fund.

**(5) A fund whose balance is required by law to be:**

(I) **Used only for a specific purpose** other than the payment of compensation to a bargaining unit, as defined in [NRS 288.134](#); or

(II) Carried forward to the succeeding fiscal year in any designated amount.

(b) A list and description of any property conveyed to a nonprofit organization pursuant to [NRS 244.287](#) or [268.058](#).

(c) If the local government is subject to the provisions of [NRS 244.186](#), a declaration indicating that the local government is in compliance with the provisions of paragraph (c) of subsection 1 of [NRS 244.186](#).



(d) If the local government is subject to the provisions of [NRS 710.140](#) or [710.145](#), a declaration indicating that the local government is in compliance with the provisions of those sections with regard to the facilities and property it maintains and the services it provides outside its territorial boundaries.

6. The opinion and findings of the auditor contained in the report of the audit must be presented at a meeting of the governing body held not more than 30 days after the report is submitted to it. Immediately thereafter, the entire report, together with the management letter required by generally accepted auditing standards in the United States or by regulations adopted pursuant to [NRS 354.594](#), must be filed as a public record with:

- (a) The clerk or secretary of the governing body;
- (b) The county clerk;
- (c) The Department of Taxation; and
- (d) In the case of a school district, the Department of Education.

7. After the report of the audit is filed by the local government, the report of the audit, including, without limitation, the opinion and findings of the auditor contained in the report of the audit, may be disseminated by or on behalf of the local government for which the report was prepared by inclusion, without limitation, in or on:

(a) An official statement or other document prepared in connection with the offering of bonds or other securities;

(b) A filing made pursuant to the laws or regulations of this State;

(c) A filing made pursuant to a rule or regulation of the Securities and Exchange Commission of the United States; or

(d) A website maintained by a local government on the Internet or its successor,

↳ without the consent of the auditor who prepared the report of the audit. A provision of a contract entered into between an auditor and a local government that is contrary to the provisions of this subsection is against the public policy of this State and is void and unenforceable.

8. If an auditor finds evidence of fraud or dishonesty in the financial statements of a local government, the auditor shall report such evidence to the appropriate level of management in the local government.

9. The governing body shall act upon the recommendations of the report of the audit within 3 months after receipt of the report, unless prompter action is required concerning violations of law or regulation, by setting forth in its minutes its intention to adopt the recommendations, to adopt them with modifications or to reject them for reasons shown in the minutes.

(Added to NRS by [1965, 735](#); A [1967, 939](#); [1969, 800](#); [1971, 1344](#); [1973, 184](#); [1975, 451](#), [1688](#), [1801](#); [1977, 547](#); [1981, 313](#), [1768](#); [1987, 1043](#); [1989, 620](#); [1995, 1896](#), [1935](#); [1997, 574](#), [1611](#), [1739](#); [1999, 472](#), [2945](#); [2001, 1810](#); [2003, 1231](#); [2005, 292](#), [1344](#))

## Exhibit G

**NRS 354.6241 Contents of statement provided by local government to auditor; expenditure of excess reserves in certain funds; restrictions on use of budgeted ending fund balance in certain circumstances. [Effective through June 30, 2021.]**

1. The statement required by paragraph (a) of subsection 5 of [NRS 354.624](#) must indicate for each fund set forth in that paragraph:

(a) Whether the fund is being used in accordance with the provisions of this chapter.

(b) Whether the fund is being administered in accordance with generally accepted accounting procedures.

(c) Whether the reserve in the fund is limited to an amount that is reasonable and necessary to carry out the purposes of the fund.

(d) The sources of revenues available for the fund during the fiscal year, including transfers from any other funds.

(e) The statutory and regulatory requirements applicable to the fund.

(f) The balance and retained earnings of the fund.

2. Except as otherwise provided in subsection 3 and [NRS 354.59891](#) and [354.613](#), to the extent that the reserve in any fund set forth in paragraph (a) of subsection 5 of [NRS 354.624](#) exceeds the amount that is reasonable and necessary to carry out the purposes for which the fund was created, the reserve may be expended by the local government pursuant to the provisions of [chapter 288](#) of NRS.

3. For any local government other than a school district, for the purposes of [chapter 288](#) of NRS, a budgeted ending fund balance of not more than 16.67 percent of the total budgeted expenditures, less capital outlay, for a general fund:

(a) Is not subject to negotiations with an employee organization; and

(b) Must not be considered by a fact finder or arbitrator in determining the financial ability of the local government to pay compensation or monetary benefits.

(Added to NRS by [1995, 1934](#); A [2001, 387, 1812](#); [2011, 1690](#); [2015, 2967](#); [2019, 3608](#))



**RESOLUTION NO. 1838**

**A RESOLUTION TO CREATE GOVERNMENTAL FUND TYPE; SPECIAL REVENUE, CAPITAL PROJECTS AND DEBTS SERVICE FUNDS FOR THE INCLINE VILLAGE GENERAL IMPROVEMENT DISTRICT FOR COMMUNITY SERVICES AND BEACH FUNDS AS REQUIRED BY NEVADA ADMINISTRATIVE CODE 354.241, EFFECTIVE AS OF JULY 1, 2015**

**RESOLVED**, by the Board of Trustees of the Incline Village General Improvement District, Washoe County, Nevada, that

**WHEREAS**, pursuant to Nevada Administrative Code (NAC) Section 354.241, a local government is required to adopt a Resolution to create a fund types covered by Nevada Revised Statute 354.624 5 (a); and

**WHEREAS**, the District Community Services and Beach Funds provides services as defined under Nevada Revised Statute (NRS) 318, which in effect requires the use of those Fund's fund balance for a specific purpose; and

**WHEREAS**, on December 10, 2014, the Board of Trustees directed staff to apply for approval of the District's 2015-16 budget by the Nevada Department of Taxation utilizing Special Revenue, Capital Projects and Debt Service Fund accounting for Community Services and the Beach Funds; and

**WHEREAS**, the District expects to receive notice that its budget is found to be in compliance with NRS 354.598 by the Nevada Department of Taxation.

**NOW, THEREFORE, IT IS ORDERED**, as follows:

1. Effective July 1, 2015 the Incline Village General Improvement District, Nevada shall establish the governmental fund type Special Revenue, Capital Projects and Debt Service Funds for use by its Community Services and Beach Funds.
2. The table on the last page of this Resolution contains the required elements 1-4 and 6-7 under NAC 354.241, element 5 is met by the existing fund balance of the affected funds.



**RESOLUTION NO. 1838**

**A RESOLUTION TO CREATE GOVERNMENTAL FUND TYPE; SPECIAL REVENUE, CAPITAL PROJECTS AND DEBTS SERVICE FUNDS FOR THE INCLINE VILLAGE GENERAL IMPROVEMENT DISTRICT FOR COMMUNITY SERVICES AND BEACH FUNDS AS REQUIRED BY NEVADA ADMINISTRATIVE CODE 354.241, EFFECTIVE AS OF JULY 1, 2015**

\* \* \* \* \*

I hereby certify that the foregoing is a full, true and correct copy of a resolution duly passed and adopted at a regularly held meeting of the Board of Trustees of the Incline Village General Improvement District on the 21st day of May, 2015, by the following vote:

AYES, and in favor thereof, Trustees:

NOES, Trustees:

ABSENT, Trustees:

\_\_\_\_\_  
Jim Hammerel  
Secretary, IVGID Board of Trustees





**RESOLUTION NO. 1838**

**A RESOLUTION TO CREATE GOVERNMENTAL FUND TYPE; SPECIAL REVENUE, CAPITAL PROJECTS AND DEBTS SERVICE FUNDS FOR THE INCLINE VILLAGE GENERAL IMPROVEMENT DISTRICT FOR COMMUNITY SERVICES AND BEACH FUNDS AS REQUIRED BY NEVADA ADMINISTRATIVE CODE 354.241, EFFECTIVE AS OF JULY 1, 2015**

Fund Name	Purpose	Source of Revenues	Short-term Expenditures	Long-term Expenditures	Plan for Fund Balance	Adequacy of Fund Balance
Community Services – Special Revenue	Recreational activities conducted by the District under NRS 318, other than Beach locations	User fees, stand by charges, rents, grant, investment earnings and other income	Operating expenditures to provide recreational activities	Transfers out to capital purchases and debt service to support recreational activities	Meet the minimum necessary to maintain District recreational activities	Consider the District's Board Policy on Appropriate Level of Fund Balance
Community Services – Capital Expenditure	Capital expenditures related to recreational activities conducted by the District under NRS 318, other than Beach locations	Sales of coverage and capital assets and transfers from the Community Services Special Revenue Fund	Operating expenditures related to Community Services capital expenditures <i>Classic Gannaso</i>	Capital purchases to support Community Services recreational activities	Meet the minimum necessary to execute Community Services capital purchases	Consider the District's Board Policy on Appropriate Level of Fund Balance
Community Services – Debt Service	Debt service expenditures related to recreational activities conducted by the District under NRS 318, other than Beach locations	Transfer from the Community Services Special Revenue Fund	Operating expenditures related to Community Services debt service expenditures	Debt service expenditures to support Community Services recreational activities	Meet the minimum necessary to execute Community Services debt service expenditures	Consider the District's Board Policy on Appropriate Level of Fund Balance
Beach – Special Revenue	Recreational activities conducted by the District under NRS 318 for Beach locations	User fees, stand by charges, rents, grant, investment earnings and other income	Operating expenditures to provide Beach recreational activities	Transfers out to capital purchases and debt service to support Beach recreational activities	Meet the minimum necessary to maintain District Beach recreational activities	Consider the District's Board Policy on Appropriate Level of Fund Balance
Beach – Capital Expenditure	Capital expenditures related to recreational activities conducted by the District under NRS 318 for Beach locations	Sales of coverage and capital assets and transfers from the Beach Special Revenue Fund	Operating expenditures related to Beach capital expenditures <i>Classic Gannaso</i>	Capital purchases to support Beach recreational activities	Meet the minimum necessary to execute Beach capital purchases	Consider the District's Board Policy on Appropriate Level of Fund Balance
Beach – Debt Service	Debt service expenditures related to recreational activities conducted by the District under NRS 318 for Beach locations	Transfer from the Beach Special Revenue Fund	Operating expenditures related to Beach debt service expenditures	Debt service expenditures to support Beach recreational activities	Meet the minimum necessary to execute Beach debt service expenditures	Consider the District's Board Policy on Appropriate Level of Fund Balance

# Exhibit I

**INCLINE VILLAGE GENERAL IMPROVEMENT DISTRICT  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2021**

	GENERAL	COMMUNITY SERVICES SPECIAL REV.	BEACH SPECIAL REVENUE	COMMUNITY SERVICES CAP. PROJECTS	BEACH CAPITAL PROJECTS	COMMUNITY SERVICES DEBT SERV.	Nonmajor BEACH DEBT SERVICE	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES</b>								
Ad valorem taxes	\$ 1,760,049	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,760,049
Personal Property Tax	52,909	-	-	-	-	-	-	52,909
Intergovernmental	-	-	-	-	-	-	-	-
Consolidated taxes	1,629,192	-	-	-	-	-	-	1,629,192
Local Government Tax Act	259,256	-	-	-	-	-	-	259,256
Services	1,440	36,997	-	-	-	-	-	38,437
Charges for Services	-	16,092,512	839,405	-	-	-	-	16,931,917
Facility Fees	-	1,735,612	648,974	536,571	3,196,016	412,748	7,720	6,537,641
Interfund Services	-	91,769	-	-	-	-	-	91,769
Operating Grants	-	17,000	-	-	-	-	-	17,000
Capital Grants	-	-	-	88,505	-	-	-	88,505
Investment income	68,489	4,471	635	-	-	-	-	73,595
Miscellaneous	8,363	119,697	-	-	-	-	-	128,060
Total revenues	3,779,698	18,098,058	1,489,014	625,076	3,196,016	412,748	7,720	27,608,530
<b>EXPENDITURES</b>								
<b>GENERAL GOVERNMENT</b>								
Manager	397,556	-	-	-	-	-	-	397,556
Trustees	143,722	-	-	-	-	-	-	143,722
Accounting	324,601	-	-	-	-	-	-	324,601
Information Services	940,924	-	-	-	-	-	-	940,924
Human Resources	2,999	-	-	-	-	-	-	2,999
Health & Wellness	16,218	-	-	-	-	-	-	16,218
Community & Employee Relations	165,651	-	-	-	-	-	-	165,651
Administration	565,250	-	-	-	-	-	-	565,250
Capital Outlay	365,878	-	-	-	-	-	-	365,878
<b>RECREATION</b>								
Championship Golf	-	3,342,505	-	112,217	-	-	-	3,454,722
Mountain Golf	-	1,014,000	-	11,330	-	-	-	1,025,330
Facilities	-	1,005,717	-	60,107	-	-	-	1,065,824
Ski	-	6,603,759	-	287,796	-	-	-	6,891,555
Community Programming and Recreation Center	-	1,938,411	-	87,206	-	-	-	2,025,617
Parks	-	758,179	-	66,349	-	-	-	824,528
Tennis	-	249,060	-	73,392	-	-	-	322,452
Recreation Administration	-	377,556	-	7,000	-	-	-	384,556
Beach	-	-	1,700,422	-	234,767	-	-	1,935,189
Capital Outlay	-	-	-	-	-	-	-	-
Championship Golf	-	-	-	785,415	-	-	-	785,415
Mountain Golf	-	-	-	79,296	-	-	-	79,296
Ski	-	-	-	115,469	-	-	-	115,469
Community Programming and Recreation Center	-	-	-	252,906	-	-	-	252,906
Parks	-	-	-	170,123	-	-	-	170,123
Tennis	-	-	-	798,648	-	-	-	798,648
Beach	-	-	-	-	1,010,438	-	-	1,010,438
Debt Service	-	-	-	-	-	362,075	5,925	368,000
Principal	-	-	-	-	-	31,097	345	31,442
Interest	-	-	-	-	-	-	-	-
Total expenditures	2,922,799	15,289,187	1,700,422	2,907,254	1,245,205	383,172	6,270	24,454,309
Excess revenues (expenditures)	856,899	2,808,871	(211,408)	(2,282,178)	1,950,811	29,576	1,450	3,154,021
<b>OTHER FINANCING SOURCES:</b>								
Proceeds from Sale of Capital and Intangible Assets	-	52,250	-	1,500	-	-	-	53,750
Transfers In (Out) - Facility Fees for Capital Expenditure	-	(537,835)	-	537,835	-	-	-	-
Net change in fund balance	856,899	2,323,286	(211,408)	(1,742,843)	1,950,811	29,576	1,450	3,207,771
Fund Balance, July 1, as reported	4,630,149	15,280,913	2,591,632	-	-	-	-	22,502,694
Prior period adjustment	243,512	(1,637,400)	-	1,637,400	-	-	-	243,512
Fund balance, July 1 as adjusted	4,873,661	13,643,513	2,591,632	1,637,400	-	-	-	22,746,206
Fund balance, June 30	\$ 5,730,560	\$ 15,966,799	\$ 2,380,224	\$ (105,443)	\$ 1,950,811	\$ 29,576	\$ 1,450	\$ 25,953,977

→ Total of \$705,397

The notes to the financial statements are an integral part of this statement